DOCUMENT RESUME

ED 268 322 CE 044 185

TITLE	The New GI Bill. Potential Impact of Ending It Early. Briefing Report to the Chairman, Veterans' Affairs Committee, House of Representatives.
INSTITUTION	General Accounting Office, Washington, D.C.
REPORT NO	GAO/NSIAD-86-80BR
PUB DATE	Mar 86
NOTE	18p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 (first five copies free; additional copies $2.00 each; 100 or more--25% discount).
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Federal Aid; *Federal Legislation; Military Service; Postsecondary Education; *Program Costs; Recruitment; *Student Financial Aid; *Training Allowances; Veterans; *Veterans Education
IDENTIFIERS	*G I Bill; Military Enlistment; Military Recruitment; *Veterans Educational Assistance Program

ABSTRACT

This briefing report provides an evaluation of Department of Defense (DOD) plans to terminate the new GI Bill and revert to the Veterans Educational Assistance Program (VEAP). Comments are made regarding the positions of the Office of the Secretary of Defense (OSD) and the military service. These findings are summarized: estimated cost to transition back to VEAP would be $5.4 million, estimated program savings over fiscal years 1987 to 1991 would be $194 million, comparing the new GI Bill educational costs to VEAP costs will always show the former to be more costly, Army statistics show a marked recruiting improvement since the new GI Bill was started, military service program managers believe a return to VEAP could have a negative effect on the services' ability to attract quality recruits, and participation in the new GI Bill is considerably higher than the VEAP it replaced. Other contents of this report are a summary of transition costs, an estimate of the net savings in governmental outlays by terminating the new GI Bill, and information on recruiting and retention impacts of the new GI Bill and returning to VEAP. (YLB)

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

March 25, 1986

B-222339

The Honorable G. V. Montgomery
Chairman, House Committee on Veterans' Affairs
United States House of Representatives

Dear Mr. Chairman:

The enclosed briefing report is in response to your request that we evaluate Department of Defense plans to terminate the new GI Bill and revert to the Veterans Educational Assistance Program (VEAP). After discussing this request with your staff, we agreed to gather data and comment on the positions of the Office of the Secretary of Defense (OSD) and the military services on:

(1) the costs involved in terminating the basic benefits of the new GI Bill and resuming the VEAP,

(2) the difference in program costs which would result from returning to VEAP on October 1, 1986, as opposed to July 1, 1988, when the 3-year test would be complete and a decision made on whether to extend it, and

(3) estimates of the recruiting and retention impacts of this decision.

In summary, we found the following:

--The military services' estimates and OSD's estimate, when combined, indicate that it would cost about $5.4 million to transition back to VEAP. In addition, the Veterans Administration says that it will cost them about $1 million.

--The estimate of program savings, included in the President's fiscal year 1987 budget, from returning to VEAP on October 1, 1986, did not include new GI Bill entitlement to people in the Delayed Entry Program on September 30, 1986. As a result, the estimated program savings over the period of fiscal years 1987 to 1991 should be $194 million rather than the $230 million estimate contained in the budget.

--Because the government pays a proportionally larger share of new GI Bill educational costs than VEAP costs, comparing these two will always show the new GI Bill to be more costly as long as the number of people who use the new GI Bill is at least as great as the number who use VEAP.

--While the potential impact of the new GI Bill on recruiting cannot be conclusively determined, Army statistics show a marked recruiting improvement since the new GI Bill was started on July 1, 1985. In addition, data obtained from the Reserve and National Guard components of the Army and Air Force show other improvements in enlistment, reenlistment, and extension statistics since the start of the new GI Bill.

--The Administration's position that a return to VEAP will provide sufficient recruiting incentives to meet manning requirements is not shared by military service program managers, who believe that a return to VEAP could have a negative effect on the services' ability to attract quality recruits.

--Participation in the new GI Bill is considerably higher than the VEAP program it replaced.

--Additional analytical work, including recruitment and retention modeling, is needed to estimate the impact of terminating the new GI Bill and returning to VEAP.

In conducting our analysis we (1) reviewed the Administration's fiscal year 1987 budget request and justification, and other pertinent documentation and (2) met with OSD and Office of Management and Budget officials, program managers for the new GI Bill from each military service, and recruiters from all services in the Washington, D.C., and Baltimore, Maryland, areas.

The information presented in this briefing report was provided by these individuals, except where identified as GAO comments. Due to time constraints, we did not independently verify the information. We did not obtain official agency comments on this report. However, we discussed a draft with OSD officials and have incorporated their comments where appropriate.

B-222339

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director of the Office of Management and Budget; and other interested parties.

If you have any questions, please call Martin M Ferber, Associate Director for Manpower, Reserve Affairs and Logistics, at 275-5140.

Sincerely yours,

Frank C. Conahan
Director

BACKGROUND

Since July 1, 1985, the Department of Defense (DOD) and the Veterans Administration (VA) have been jointly funding and VA has been administering a 3-year trial program of enhanced educational benefits (the new GI Bill) to help service members readjust to civilian life after their separation from military service and to help the services recruit and retain military personnel. Because DOD believes that the new GI Bill will be more expensive than the Veterans Educational Assistance Program (VEAP) which preceded it, DOD proposes to submit legislation to cancel the 3-year GI Bill test and resume VEAP on October 1, 1986. This proposal is reflected in the President's budget for fiscal year 1987.

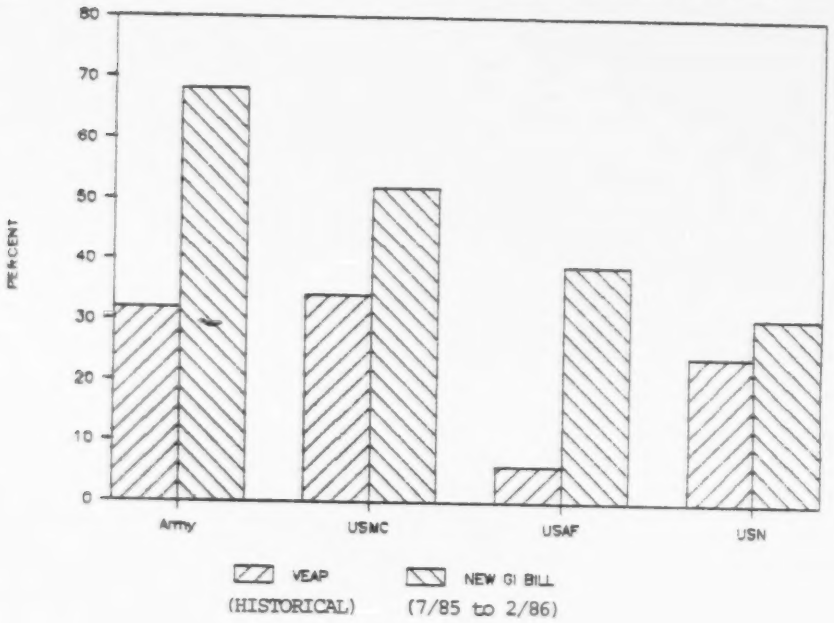
Under the new GI Bill, a service member in the active components contributes a nonrefundable $1,200 during the first 12 months of service and, in return, receives a basic education benefit of $10,800. Under VEAP, a service member in the active components contributed up to $2,700 any time during enlistment (which was refundable), and the return in education benefits to the individual was twice the amount put in.

Under the new GI Bill, all reservists who enlist, reenlist, or extend for not less than 6 years and have a high school diploma can receive a noncontributory educational benefit of up to $5,040. Reservists were not eligible to participate in VEAP; however, certain members could receive a noncontributory educational benefit of up to $4,000 for the reimbursement of educational expenses under Chapter 106 of Title 10 of the United States Code, provided funds for this purpose were contained in the annual defense appropriations act.

The following two graphs show (1) VEAP and new GI Bill participation rates for the active components and (2) new GI Bill participation rates for the reserve components since inception of the program on July 1, 1985.

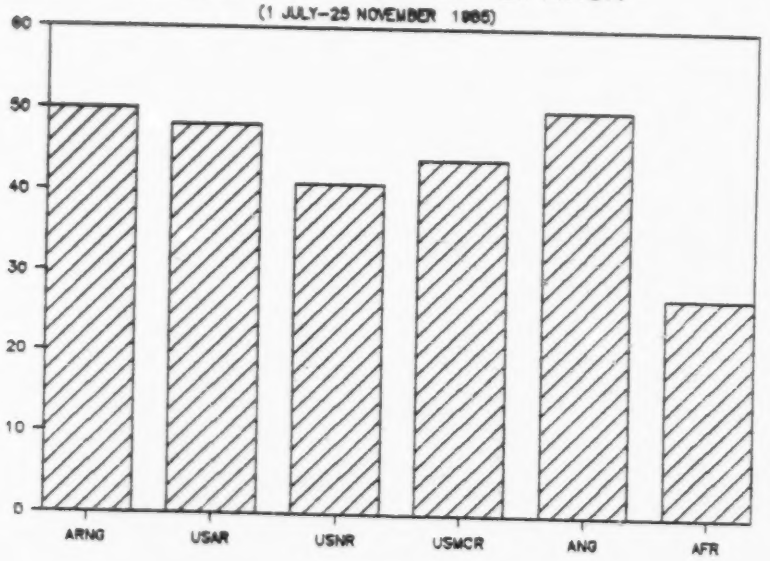
ENCLOSURE

ACTIVE COMPONENTS – PARTICIPATION RATES



RESERVES GI BILL PARTICIPATION

(1 JULY–25 NOVEMBER 1985)



SUMMARY OF TRANSITION COSTS

ESTIMATED OUT-OF-THE ORDINARY OPERATING COSTS RESULTING FROM TERMINATING THE NEW GI BILL ON OCTOBER 1, 1986, AND RESUMING THE VEAP ON THAT DATE

	OSD[a]	ARMY	NAVY	AIR FORCE	MARINES	TOTAL
	----------Thousands----------					
ADVERTISING	$350	$3,109	$ 5	$ 0	$ 0	$ 3,464
TRAINING	0	716	0	0	0	716
ADMINISTRATIVE	0	1,040	50	52	50	1,192
TOTAL	$350	$4,865	$55	$52	$50	$5,372[b]

[a]Joint Advertising Recruiting Program.

[b]In addition, the Veterans Administration estimates that its transition costs would be about $1 million. This cost would be for redirecting the computer systems to accommodate the change.

OSD ESTIMATE OF TRANSITION COSTS

ADVERTISING	$350,000
TRAINING	0
ADMINISTRATIVE	0
TOTAL	$350,000

Summary of OSD Comments: OSD's position on its transition costs is that the only potential costs would be for joint-advertising media-production associated with a return to VEAP. OSD estimated that these costs would be about $350,000. In commenting on the service estimates of transition cost, OSD officials indicated that they thought that the services had overstated some costs and understated others.

ENCLOSURE

ARMY ESTIMATE OF TRANSITION COSTS

ADVERTISING	$2,873,000
TRAINING	716,000
JOIN	50,000
PRINTING COSTS	471,000
SYSTEMS	650,000
HEADQUARTERS SUPPORT	105,000
TOTAL	$4,865,000

Summary of Army Comments: Advertising costs are for the production of new material ($358,000) and for the purchase of additional media time ($2,515,000) to advertise VEAP--beyond that currently planned for the GI Bill. Training costs include programs for recruiters and Education Services Office personnel. The cost of JOIN is for production of a new video disk on VEAP for the Joint Optical Interview Network (JOIN), a system all recruiters use. Printing costs include new forms and pamphlets. Systems costs are for reprogramming of computer systems at various commands. Headquarters support includes recruiting command expenses, such as field meetings.

NAVY ESTIMATE OF TRANSITION COSTS

ADVERTISING	$ 5,000
TRAINING	-0-
ADMINISTRATIVE	50,000
TOTAL	$55,000

Summary of Navy Comments: Training costs would be minimal because recruiters already receive training in educational benefits before they begin their recruiting duties. Advertising costs would consist primarily of the cost of printing 100,000 recruiting advertising items for VEAP. Administrative costs would include the man-hours involved in changing back to VEAP, re-establishing VEAP financial and personnel systems, and printing and distributing new instructions and VEAP forms.

AIR FORCE ESTIMATE OF TRANSITION COSTS

ADVERTISING	-0-
TRAINING	-0-
ADMINISTRATIVE	$52,400
TOTAL	$52,400

Summary of Air Force Comments: No mass media advertising would be used since VEAP has had little impact as an enlistment incentive. Consequently, the transition cost would be primarily administrative.

MARINE CORPS ESTIMATE OF TRANSITION COSTS

ADVERTISING	-0-
TRAINING	-0-
ADMINISTRATIVE	$50,000
TOTAL	$50,000

Summary of Marine Corps Comments: The bulk of the costs would come from drafting and publishing new forms, brochures, and advertising initiatives.

ENCLOSURE

PROGRAM SAVINGS

ESTIMATE OF THE NET SAVINGS IN GOVERNMENTAL OUTLAYS BY TERMINATING THE NEW GI BILL AS OF OCTOBER 1, 1986

DOD POSITION: The resumption of VEAP for active forces as of October 1, 1986 (and the reinstitution of a tuition-reimbursement program for the reserves, who were not covered under VEAP) in place of the new GI Bill, will provide savings of government funds because the government cost is lower under VEAP than under the new GI Bill. Government-wide estimated savings in program outlays during fiscal years 1987 to 1991 are $230 million. DOD's program cost-savings estimates were based on an Office of Management and Budget (OMB) analysis which compared costs of the GI Bill completing its currently authorized 3-year test (Scenario 1) to the GI Bill terminating on October 1, 1986 (Scenario 2).

Scenario 1: New GI Bill is terminated, as scheduled, on July 1, 1988, and VEAP (plus a reinstituted program for the reserves) is resumed.

	Fiscal years					
	1987	1988	1989	1990	1991	TOTAL
	(In millions)					
Net government outlays for VEAP[a]	$107	$134	$ 25	$ 25	$ 25	$ 316
Net government outlays for new GI Bill	(116)[b]	(62)[b]	114	313	442	691
Total net government outlays for VEAP and new GI Bill	$ (9)	$ 72	$139	$338	$467	$1,007

[a]There are still personnel who joined prior to July 1, 1985, and are entitled to VEAP benefits.

[b]Negative outlays result because service personnel are contributing more than is being paid out in benefits since the program is so new.

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Scenario 2: New GI Bill is terminated early, on October 1, 1986, and VEAP (plus a reinstituted program for the reserves) is resumed.

	Fiscal years					
	1987	1988	1989	1990	1991	TOTAL
	(In millions)					
Net government outlays for VEAP	$ 48	$ 34	$ 19	$ 29	$ 40	$ 170
Net government outlays for new GI Bill	(66)	66	111	213	283	607
Total net government outlays for VEAP and new GI Bill	$(18)	$100	$130	$242	$ 323	$ 777
Difference in total net government outlays by terminating the new GI Bill on October 1, 1986	$ (9)	$ 28	$ (9)	$(96)	$(144)	$(230)

GAO COMMENTS: OMB did not include in its calculation for Scenario 2 individuals who would be in the Delayed Entry Program as of September 30, 1986, and thereby entitled to new GI Bill benefits when they actually join. DOD has estimated that including these individuals in Scenario 2 would reduce total savings in program costs for fiscal years 1987 to 1991 by $36 million, thereby reducing savings to $194 million.

The program-cost estimates were generated using DOD actuarial assumptions on participation, number of people who will receive benefits, and interest rates. We have not conducted a separate evaluation of these assumptions. The interest rate used by the DOD Board of Actuaries was 9.5 percent, based on interest earned on government funds.

The new GI Bill, with a payout rate of 8:1 (a $1,200 contribution for a $10,800 basic benefit), versus VEAP, with a payout rate of 2:1 (a $2,700 maximum contribution for a $8,100 basic benefit), will obviously account for more government outlays over any given period of time as long as the participation rate for the new GI Bill is at least as great as the participation rate for VEAP.

ENCLOSURE

RECRUITING AND RETENTION IMPACTS OF THE NEW GI BILL AND RETURNING TO VEAP

Both OSD and the services agree that, because the new GI Bill has been in effect for only a short time, estimating its impact on recruiting or retention at this time would be premature. While agreeing that it was too early to measure any impact, the Assistant Secretary of Defense (Reserve Affairs) said that he believed that the new GI Bill was allowing the reserve components to more effectively recruit individuals who have no desire to move away from home, who are interested in going to college (or are already attending) either full or part time, and who are looking for a way to help pay for that education. He also believes that the new GI Bill will have a positive effect on reducing attrition in the reserve components because the individuals who will take advantage of it will be more likely to remain.

OMB has expressed concern about the new GI Bill's retention impact and maintains that the new GI Bill will result in highly skilled recruits leaving the services in order to use their benefits.

The service program managers pointed to the following indicators, studies, or efforts underway which they believe will eventually be pertinent in measuring the impact of the new GI Bill on recruiting and retention:

--Since August 1985, OSD has been attempting to track the effects of the new GI Bill by including it in the Army portion of DOD's system for forecasting enlistment results.

--The Army now includes questions on the new GI Bill in its periodic survey of new recruits to gather information to improve recruiting programs.

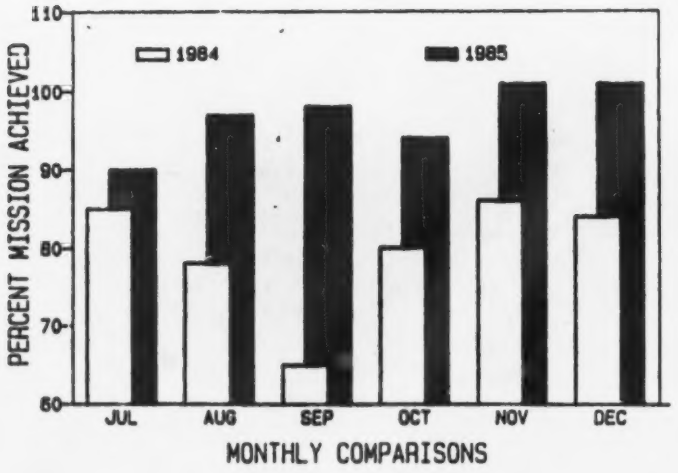
--An Army Recruiting Command-sponsored study analyzing and modeling enlistment incentives and determining the most cost-effective level and mix should be completed shortly.

--The Navy has noted an improvement in the quality of Selected Reserve accessions for the first two quarters of fiscal year 1986 when compared to the same two quarters of fiscal year 1985. This comparison shows a 5.4-percent increase in the percentage of accessions from the highest two mental categories and a 10.8-percent decrease in the percentage from the lowest mental category.

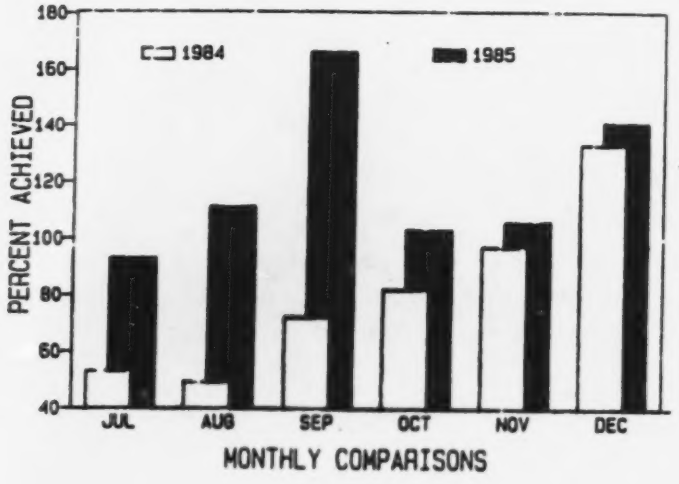
The Army Recruiting Command has used the following two graphs in briefings to show recruiting accomplishments for high-quality male recruits in the active and the reserve components for like periods in 1984 and 1985 as evidence of the new GI Bill's effect on recruiting.

ENCLOSURE

ACTIVE ARMY RECRUITING ACCOMPLISHMENT
FOR HIGH QUALITY MALE RECRUITS



ARMY RESERVE RECRUITING ACCOMPLISHMENT
FOR HIGH QUALITY MALE RECRUITS



In addition, statistics obtained from the Army and Air Force Reserve and National Guard components (which are projected to have the majority of the 1986 reserve component GI Bill participants) showed the following:

Air Force Reserve

Comparisons from July 1, 1985, when the new GI Bill went into effect, through January 31, 1986, to the same period 1 year earlier showed that

--non-prior service (NPS) enlistments, which are for a period of 6 years, increased by 17.2 percent;

--total reenlistments increased by 16.2 percent;

--reenlistments for at least 6 years as a percentage of total reenlistments increased from 39.3 percent to 63.5 percent; and

--extensions of enlistment increased by 198 percent.

Air National Guard

Comparisons for the period July 1, 1985, through December 31, 1985, to the same period 1 year earlier showed that

--NPS enlistments for at least 6 years increased by 11.3 percent; and

--reenlistment or extensions of enlistment for at least 6 years increased by 150 percent.

Army Reserve

Comparisons of NPS enlistments for the period July 1, 1985, through January 31, 1986, with the NPS enlistments for the 21 months prior to July 1, 1985, showed that

--enlistments for at least 6 years increased by 8.2 percent; and

--enlistees who were high school graduates increased by 11.2 percent.

Little notable change has taken place in the reenlistment or extension-of-enlistment rates during the period July 1, 1985, through January 31, 1986, when compared to like periods 2 years earlier.

Army National Guard

Comparisons for the period July, 1, 1985, through December 31, 1985, to the same period 1 year earlier showed that

--the number of NPS accessions who were high school graduates increased 15 percent; and

--extensions of enlistment increased by 39 percent.

NPS enlistments for at least 6 years for the period July 1, 1985, through December 31, 1985, show little change as a percentage of total NPS enlistments when compared with like periods in 1983 and 1984.

EFFECTS OF RETURNING TO VEAP

The Administration's position is that VEAP provides a recruiting incentive sufficient to meet manning requirements. Although the Army, historically, has had the most difficult recruiting problem, the Administration says that, by reducing the level of the basic benefit while retaining a comparable level of additional benefits for the Army, a return to VEAP will increase the relative value of the Army recruiting initiative.

The Army program manager estimates that returning to VEAP could annually result in 8,625 high school graduates who score in the top half of the mental-ability test not enlisting. This estimate is based on econometric studies of the cost-effectiveness of various recruiting resources and on observed increases in high-quality enlistees since the start of the new GI Bill.

The Navy program manager believes that public perception of the instability of military benefits resulting from a return to VEAP could have an adverse impact on the Navy's ability to meet quality accession goals in a time of lower unemployment and decreasing availability of 18-year-old males. Also, the Navy believes that a return to VEAP would have an immediate negative impact on fleet personnel who would view this as an erosion of yet another benefit for the military.

The Air Force program manager maintains that a return to VEAP would negate advances made in attracting higher quality people to the Air Force through the new GI Bill. Also, the loss in public confidence in the integrity of the Air Force's enlistment incentives would be severe.

The program managers also believe that perception of the two programs, and more specifically name recognition of the GI Bill, would have an effect on recruiting and retention. They believe that people perceive the new GI Bill to be a real benefit like the old GI Bill. On the other hand, the name "VEAP" is unfamiliar and, therefore, not perceived as a real benefit.

GAO COMMENTS

Isolating a pure effect of the new GI Bill on recruiting will always be difficult because there are so many other influencing factors. For instance, the Army received an additional $28 million (a 15 percent increase) in fiscal year 1985 for recruiting to enable it to respond more effectively to changing market conditions. This may have--on its own, or in conjunction with the new GI Bill--been responsible for the significantly larger number of high-quality youth entering the Army during the period July through September 1985 than had been achieved for the same period in the previous year. Either a controlled experiment or the accumulation of considerably more data will be required to attempt to separate the impacts of the new GI Bill from other possibly relevant forces.

Similarly, the respective effects of the two programs should not be compared until sufficient data is available. Such factors as changes in size of recruiting force, recruiting-target population, seasonality, employment rates, public attitudes, and youth demographics will also need to be compared. Any disruption to the 3-year test period could further lessen the possibility of pointing to specific results achieved from the new GI Bill.

In our discussion with recruiters from all services, opinions varied concerning the worth of the two programs both as a recruiting tool and as a useful benefit. All agreed that it was too early to make a valid comparison between the two programs. In recruiting, geographic location apparently has much to do with the receptiveness of recruits to educational benefits. Recruiters pointed out that in areas where college attendance is stressed, educational benefits are an effective selling tool. For example, Army recruiters from Arlington, Woodbridge, and Springfield, Virginia, informed us that 45 of the 73 recruits who have joined the Army out of those offices in fiscal year 1986 indicated that they did so because of the new GI Bill.

(391049)

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